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Reforming Health Care

How a government-run plan could fit -- or not

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OF THE many possible issues that could snarl health-care reform, one of the biggest is whether the measure should include a government-run health plan to compete with private insurers. The public plan has become an unfortunate litmus test for both sides. The opposition to a public plan option is understandable; conservatives, health insurers, health-care providers and others see it as a slippery step down the slope to a single-payer system because, they contend, the government's built-in advantages will allow it to unfairly squash competitors.

For liberals, labor unions and others pushing to make health care available to all Americans, however, the fixation on a public plan is bizarre and counterproductive. Their position elevates the public plan way out of proportion to its importance in fixing health care. It is entirely possible to imagine effective health-care reform -- changes that would expand coverage and help control costs -- without a public option.

President Obama has said that he favors a public option but has been sketchy on details. His nominee for secretary of health and human services, Kathleen Sebelius, said that she wants a public plan to "challenge private insurers to compete on cost and quality" but "recognizes the importance of a level playing field between plans and ensuring that private insurance plans are not disadvantaged."

The argument for a public plan is that, without the need to extensively market itself or make a profit, it would do a better job of providing good health care at a reasonable cost, setting an important benchmark against which private insurers would be forced to compete. Even in a system where insurers are required to take all applicants, public plan advocates argue, incentives will remain for private plans to discourage the less healthy from signing up; a public plan is a necessary backstop. Moreover, if the playing field is level, public plan advocates argue, private insurers -- and those who extol the virtues of a competitive marketplace -- should have nothing to fear.

We disagree. It is difficult to imagine a truly level playing field that would simultaneously produce benefits from a government-run system. While prescription drugs are not a perfect comparison, the experience of competing plans in the Medicare prescription drug arena suggests that a government-run option is not essential to energize a competitive system that has turned out to cost less than expected. Insurers and private companies have been at least as innovative as the federal government in recent years in finding ways to provide quality care at lower costs. Medicare keeps costs under control in part because of its 800-pound-gorilla capacity to dictate prices -- in effect, to force the

private sector to subsidize it. Such power, if exercised in a public health option, eventually would produce a single-payer system; if that's where the country wants to go, it should do so explicitly, not by default. If the chief advantage of a public option is to set a benchmark for private competitors, that could be achieved in other ways, for example, by providing for the entry of a public plan in case the private marketplace did not perform as expected.

Maybe we're wrong. Maybe it's possible to design a public option that aids consumers without undermining competition. If so, we certainly wouldn't oppose a program that included a public component. But it would be a huge mistake for the left to torpedo reform over this question.